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MEMORANDUM FOR THE RECORD

SUBJECT: DCI Congressional Briefing -- The Oil Situation

The attached briefing was requested by [redacted] of the DCI's Briefing Staff. It was prepared by [redacted] of this Branch and forwarded to the requestor 25 September 1974. 25X1 25X1 25X1

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Attachment:
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BACKUP FOR DCI CONGRESSIONAL BRIEFING

THE OIL SITUATION

I. Despite sagging demand for crude oil the OPEC nations have boosted oil prices.

A. OPEC oil ministers froze posted prices but raised taxes paid by the International Oil Companies.

1. Depending on how each OPEC country implements the tax increase, the average cost of oil to the companies will rise by 40 to 50 cents a barrel.

2. OPEC ministers tried to convince consumers that the increase should come out of oil company profits and not result in higher prices to consumers.

3. It is doubtful, however, that the companies will absorb much of this increase.

B. Saudi Arabia refused to go along with the OPEC formula, just as it did at Quito OPEC meeting in July.

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C. Oil consumers import bills will probably rise by between $4.4 billion and $5.5 billion annually as a result of this OPEC action.

1. This comes on top of OPEC's other price hikes over the past year.

2. The latest increase will boost US oil import costs by $900 million to $1.1 billion annually.

3. Japan is the next hardest hit, with a rise of $800 million to $1 billion.

4. Most major West European nations face rises of $300 to $600 million.

5. The Free World consuming countries' oil import bill is expected to reach $120 billion this year compared to $45 billion last year.

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D. Further price increases are likely next year.

1. The OPEC ministers decided to link oil prices to inflation beginning in January.

2. This could result in a rise of 12 - 15% in oil prices over the course of next year.

3. This action would preclude any easing of the burden of high oil prices as a result of continuing world inflation.

II. Individual OPEC country production cutbacks have eliminated much of the world oil surplus that was putting downward pressure on prices earlier this summer.

A. Nearly all of the cutbacks have occurred as a result of reduced company purchases of high priced participation oil (oil owned by the producing government). Rather than reduce prices the countries cut output.

1. Kuwait, Libya, and Venezuela have absorbed the brunt of the cutback so far.

2. Most other OPEC nations have absorbed at least token cuts in production.

3. Saudi Arabia's output fell substantially in August, but has since recovered.

B. The OPEC ministers decided that future production cuts would be national decisions.

1. They failed to agree on a scheme to allocate future cuts in production, but did agree to study it in preparation for their December meeting.

2. Iran in particular opposed any scheme that could obligate it to reduce output.

3. Several members indicated they would cut further if necessary, but most probably anticipate that rising winter fuel demand will solve the problem.

III. Although there is no relief in sight with regard to prices, supplies of oil appear ample for the upcoming winter.

A. Oil stocks are now at record levels in most consuming countries.

1. It is unlikely that shortages of oil products will occur this winter.

2. Gasoline and fuel oil stocks are high in all major consuming countries.